

QUÉBEC'S ECONOMIC AND FINANCIAL SUMMARY

Tuesday, October 25, 2011

Update on Québec's Economic and Financial Situation

ECONOMIC OUTLOOK

Several events have affected the international economy in 2011. Economic growth will continue in Québec, though at a more moderate pace than forecast.

- Real GDP growth should reach 1.6% in 2011, a downward adjustment of 0.4 percentage point compared to the budget forecast.
- In 2012, real GDP is also expected to grow by 1.6%, compared with the 2.2% forecast in the last budget.

QUÉBEC'S ECONOMIC OUTLOOK

	2010	2011	2012
Real gross domestic product (% change)	2.9	1.6	1.6
Exports (% change)	0.9	0.2	2.9
Housing starts (thousands)	51.4	45.1	41.0
Job creation (thousands)	66.7	54.1	35.4
Unemployment rate (%)	8.0	7.6	7.6
Canadian financial markets (%)			
Target overnight rate	0.6	1.0	1.1
Treasury Bills - 3 months	0.6	0.9	1.1
Bonds - 10 years	3.2	2.9	3.0

RESULTS FOR 2010-2011

The government's budget deficit in 2010-2011, estimated at \$4.2 billion in the last budget, amounted to \$3.2 billion, an improvement of \$1 050 million attributable chiefly to:

- higher-than-expected revenue, in particular from mining royalties;
- better results than anticipated from public organizations whose results are consolidated with those of the government;
- the elimination of the \$300-million contingency reserve since the government did not make use of it.

THE QUÉBEC GOVERNMENT'S FINANCIAL FRAMEWORK - FALL 2011

(millions of dollars)

	REAL RESULTS	FORECASTS		PROJECTIONS		
	2010-2011	2011-2012	2012-2013	2013-2014	2014-2015	2015-2016
Budgetary revenue	62 650	65 404	69 354	73 164	74 315¹	76 990¹
Budgetary expenditure						
Program spending	- 60 165	- 61 284	- 62 255	- 63 467	- 65 348	- 67 614
% change	3.1	1.9	1.6	1.9	3.0	3.5
Debt service	- 6 984	- 7 723	- 8 521	- 9 194	- 9 236	- 9 422
Total budgetary expenditure	- 67 149	- 69 007	- 70 776	- 72 661	- 74 584	- 77 036
Total of consolidated entities	2 109	1 132	1 169	705	854	1 079
Contingency reserve	—	- 400	- 200	- 100	—	—
Shortfall to be offset	—	—	—	—	975	975
SURPLUS (DEFICIT)	- 2 390	- 2 871	- 453	1 108	1 560	2 008
Deposits to the Generations Fund	- 760	- 929	- 1 047	- 1 108	- 1 560	- 2 008
BUDGETARY BALANCE WITHIN THE MEANING OF THE BALANCED BUDGET ACT	- 3 150	- 3 800	- 1 500	0	0	0

1 The Fiscal Arrangements Act between the federal government and the provinces determines the formulas for payments of equalization, the CHT and the CST until 2013-2014. The forecast for these transfers as of 2014-2015 was performed assuming the existing formulas remain in force.

A BALANCED BUDGET IN 2013-2014

Current uncertainty regarding the international economic situation is prompting the government to maintain budgetary discipline and stay the course on returning to balanced budgets and on debt reduction.

- Moreover, growth in the government's consolidated expenditure excluding debt service will be reduced from an average of 5.5% between 2006 and 2010 to 3.0% between 2010 and 2014.

The measures the government has taken over the last two years and more under the Plan to restore fiscal balance will contribute to achieving this objective in 2013-2014.

FORECASTS FOR 2011-2012 AND 2012-2013

As forecast, decreasing deficit objectives are maintained at \$3.8 billion in 2011-2012 and \$1.5 billion in 2012-2013. These deficits include contingency reserves of \$400 million and \$200 million.

- These reserves are included in the financial framework as a measure of prudence given the uncertain economic situation.

The negative adjustments to the financial framework arising from the adjustments to the economic outlook are fully offset by:

- additional revenues from mining duties;
- a downward adjustment to debt service;
- the impact of the agreement in principle reached last September 29 on the harmonization of the Québec sales tax (QST) with the goods and services tax (GST) by the Québec government and the federal government.

QUÉBEC GOVERNMENT'S FINANCING PROGRAM

(millions of dollars)

	2010-2011	2011-2012			
	Real results	March 2011 budget	Adjusted	Change	Completed ¹ %
Consolidated revenue fund					
- Net financial requirements (surplus) ^{2,3}	2 568	5 587	5 587	—	
- Repayments of borrowings	4 340	6 728	6 728	—	
- Change in cash position	- 4 283	- 2 960	- 4 518	- 1 558	
- Deposits to the Retirement Plans Sinking Fund (RPSF)	2 000	—	500	500	
- Transactions under the credit policy ⁴	472	—	—	—	
Subtotal	5 097	9 355	8 297	- 1 058	
- Pre-financing	4 518	—	—	—	
Consolidated Revenue Fund	9 615	9 355	8 297	- 1 058	
Financing Fund	5 466	4 500	4 500	—	
Consolidated Revenue Fund and Financing Fund	15 081	13 855	12 797	- 1 058	10 533 82.3
Financement-Québec	4 363	3 500	3 500	—	1 601 45.7
TOTAL	19 444	17 355	16 297	- 1 058	12 134 74.5

N.B.: A negative amount indicates a source of financing and a positive amount, a financial requirement.

1 Borrowings completed and negotiated as at October 21, 2011.

2 Excluding consolidated entities.

3 Net financial requirements are adjusted to reflect the non-receipt of revenues of the RPSF and of funds dedicated to employee future benefits.

4 As part of its credit policy that seeks to limit the financial risk regarding counterparties, the government disburses or receives amounts following movements in exchange rates. These disbursements (receipts) increase (decrease) financial requirements to be met by new borrowings but have no impact on the level of the government's debt.

THE QUÉBEC GOVERNMENT'S FINANCING PROGRAM

The 2011-2012 borrowing program of the Consolidated Revenue Fund, the Financing Fund and Financement-Québec is adjusted downward by \$1.1 billion and stands at \$16.3 billion. Currently, 74.5% of the borrowing program is completed.

Completed borrowings as at October 21, 2011 amount to \$12.1 billion. A total of \$10.5 billion has been borrowed on the Canadian market of which \$9.3 billion is in public issues.

Up to now, 13% of borrowings, i.e. \$1.6 billion, has been completed on international markets, in two currencies:

- a borrowing of AUS\$225 million (CAN\$231 million) in July 2011;
- a borrowing of US\$1.4 billion (CAN\$1.4 billion) in August 2011.

The government's financing program for 2012-2013 should amount to \$15 billion.

THE QUÉBEC GOVERNMENT'S CREDIT RATINGS

Agency	Rating	Outlook
Moody's	Aa2	Stable
Standard & Poor's (S&P)	A+	Stable
Dominion Bond Rating Service (DBRS)	A (high)	Stable
Fitch Ratings (Fitch)	AA-	Stable
Japan Credit Rating Agency (JCR)	AA+	Stable

DEBT BURDEN REDUCTION

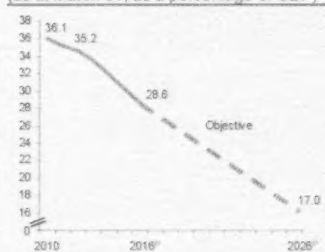
To achieve its 2025-2026 debt reduction objectives (45% of GDP for the gross debt and 17% of GDP for the debt representing accumulated deficits), the government has announced, in the last two budgets:

- that the price of heritage pool electricity would gradually rise as of 2014-2015 and that the revenues stemming from this rise would be paid into the Generations Fund;
- that 25% of mining, oil and gas royalties in excess of \$200 million per year would be paid into the Generations Fund beginning in 2014-2015.

In addition, for the next fifteen years, the government has set levels of public infrastructure investment that are compatible with both economic development and debt reduction objectives.

DEBT REPRESENTING ACCUMULATED DEFICITS

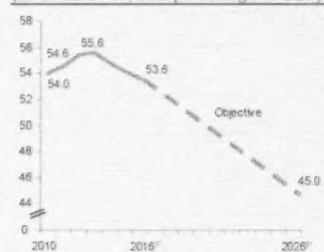
(as at March 31, as a percentage of GDP)



P Forecasts for 2012 to 2016 and projections for subsequent years.

GROSS DEBT¹

(as at March 31, as a percentage of GDP)



P Forecasts for 2012 to 2016 and projections for subsequent years.

Note: The gross debt takes the amounts accumulated in the Generations Funds into account.

1 The gross debt excludes pre-financing.

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This document is available on the following Website.

www.finances.gouv.qc.ca

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